

INDEX

	Page
Opinions below	1
Jurisdiction	1
Question presented	2
Interest of the United States	2
Statement	3
Summary of Argument	6
Argument	7
I. The patent licensee estoppel doctrine thwarts the federal policy of assuring the public of free and open competition in unpatentable products	9
A. The policy of the federal patent and anti- trust laws is to guarantee free and open competition in unpatented and un- patentable products	10
B. Federal policy favors invalidation of worth- less patents	12
C. The doctrine of licensee estoppel is an obstacle to the achievement of these policies	15
II. The trend of this Court's recent decisions has been toward abolition of the patent licensee estoppel doctrine and there is no countervailing justification for its retention	18
Conclusion	26

(i)

CITATIONS

Cases:	Page
<i>Aero Co. v. B. G. Corp.</i> , 130 F. 2d 290 (C.A. 2)-----	10
<i>Automatic Radio Co. v. Hazeltine, Inc.</i> , 339 U.S. 827--	6,
7, 8, 9, 10, 15, 21, 22, 23	
<i>Barrows v. Jackson</i> , 346 U.S. 249-----	14, 17
<i>Compeco Corp. v. Day-Brite Lighting, Inc.</i> , 376 U.S. 234--	7,
12, 22, 23	
<i>Crane v. French</i> , 38 Miss. 503-----	13
<i>Cuno Engineering Corp. v. Automatic Devices Corp.</i> ,	
314 U.S. 84-----	12
<i>Graham v. John Deere Co.</i> , 383 U.S. 1-----	11, 12, 23
<i>Haughey v. Lee</i> , 151 U.S. 282-----	14
<i>Jones v. United States</i> , 96 U.S. 24-----	24
<i>Katzinger Co. v. Chicago Mfg. Co.</i> , 329 U.S. 394-----	7,
9, 14, 15, 18, 21, 23	
<i>Kiefer-Stewart Co. v. Seagram & Sons</i> , 340 U.S. 211--	17
<i>Kinsman v. Parkhurst</i> , 18 How. 289-----	18, 19
<i>Klor's, Inc. v. Broadway-Hale Stores, Inc.</i> , 359 U.S.	
267-----	16
<i>MacGregor v. Westinghouse Co.</i> , 329 U.S. 402-----	7, 15, 21, 23
<i>Mercoid Corp. v. Mid-Continent Inv. Co.</i> , 320 U.S. 661--	10
<i>Morgan v. Railroad Co.</i> , 96 U.S. 716-----	24
<i>Muncie Gear Co. v. Outboard Co.</i> , 315 U.S. 759-----	14
<i>Paramount Corp. v. American Tri-Ergon Corp.</i> , 294	
U.S. 464-----	14
<i>Pennock v. Dialogue</i> , 2 Pet. 1-----	10
<i>Perma Life Mufflers, Inc. v. International Parts Corp.</i> ,	
No. 733, O.T. 1967, decided June 10, 1968-----	17, 23, 25
<i>Pope Mfg. Co. v. Gormully</i> , 144 U.S. 224-----	12, 13, 14, 18, 19, 23
<i>Precision Instrument Mfg. Co. v. Automotive Co.</i> , 324	
U.S. 806-----	10
<i>Saxton v. Dodge</i> , 57 Barb. (N.Y.) 84-----	25
<i>Scott Paper Co. v. Marcalus Co.</i> , 326 U.S. 249-----	15,
16, 17, 20, 21, 26	

III

Cases—Continued

	Page
<i>Sears, Roebuck & Co. v. Stiffel Co.</i> , 376 U.S. 225.....	5,
	7, 11, 12, 22, 23
<i>Simpson v. Union Oil Co.</i> , 377 U.S. 13.....	17
<i>Sinclair Co. v. Interchemical Corp.</i> , 325 U.S. 327.....	14
<i>Sola Electric Co. v. Jefferson Co.</i> , 317 U.S. 173.....	18,
	20, 21, 22, 23
<i>Southern Pacific Co. v. Arizona</i> , 325 U.S. 761.....	23
<i>United States v. General Electric Co.</i> , 272 U.S. 476.....	20
<i>United States v. Gypsum Co.</i> , 333 U.S. 364.....	20, 21, 23
<i>United States v. Harvey Steel Co.</i> , 196 U.S. 310.....	19
<i>United States v. Huck Mfg. Co.</i> , 382 U.S. 197.....	20
<i>United States v. Singer Mfg. Co.</i> , 374 U.S. 174.....	12, 15, 23
<i>Westinghouse Co. v. Formica Co.</i> , 226 U.S. 342.....	16
Constitution, statutes, and regulations:	
U.S. Constitution, Art. I, § 8, cl. 8.....	10
35 U.S.C. 101.....	11
35 U.S.C. 102.....	11
35 U.S.C. 103.....	11
35 U.S.C. 284.....	24
Statute of Monopolies (1623), 21 Jac. I, c. 3.....	11,
32 C.F.R. § 15.205-36.....	6
Miscellaneous:	
Restatement, <i>Contracts</i> § 90.....	24

In the Supreme Court of the United States

OCTOBER TERM, 1968

No. 56

LEAR, INCORPORATED, PETITIONER

v.

ADKINS

ON WRIT OF CERTIORARI TO THE SUPREME COURT
OF CALIFORNIA

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

OPINIONS BELOW

The opinion of the Supreme Court of California (A-I* 164-215) is reported at 67 C. 2d 882, 435 P.2d 321. The opinion of the District Court of Appeals (A-I 121-158) is reported at 244 A.C.A. 100, (a modification is noted at 244 A.C.A. 563), as modified, 52 Cal. Rept. 795. The opinion of the Superior Court (A-I 74-82) is not reported officially, but is reported unofficially at 143 U.S.P.Q. 53.

JURISDICTION

The judgment of the Supreme Court of California was entered on December 14, 1967 (A-I 164), and a timely petition for rehearing was denied on January 11, 1968 (A-I 217). The petition for a writ of

*A-I refers to Volume I of the Appendix.

certiorari was filed on April 9, 1968, and was granted on May 20, 1968, 391 U.S. 912.

QUESTION PRESENTED

The United States will discuss the following question, which fairly is comprehended within Question 1 of the petition:

Whether the State law doctrine that a licensee under a patent license is estopped from challenging the validity of the patent is valid in view of the policies and objectives of the federal patent and anti-trust laws.

INTEREST OF THE UNITED STATES

The effect of the application of the doctrine of patent licensee estoppel by the court below is to enforce the respondent's patent monopoly regardless of whether it meets the federal standard of patentability. This judgment, if allowed to stand, will substantially increase the procurement cost to the United States of defense items manufactured by the petitioner for the government. But the government's primary concern here transcends immediate fiscal considerations. This case presents important issues of public policy regarding the availability in private patent litigation of defenses based on invalidity of patents. There is a significant public interest in enabling private litigants to invoke the power of the courts to relieve the channels of commerce of the anticompetitive burden of invalid patent monopolies. The importance of this issue to the national economy and to the proper functioning of the federal patent system has led the United States to file this brief *amicus curiae*.

STATEMENT

The relevant facts are set out in the opinion of the California Supreme Court (A-I 164-215). Petitioner Lear employed respondent Adkins between 1951 and 1958 to develop and improve gyroscopes (devices used in aircraft navigation, hereinafter "gyros"). In 1955 Adkins granted Lear a license (A-I 12-33) to use the invention claimed in a then-pending patent application relating both to methods and to apparatus for mounting and aligning gyros in bearings (A-I 167, 172, 174).

Lear manufactured two types of devices embodying Adkins' alleged invention, "2156 gyros" and "steel gyros", and paid him royalties on both products until 1957. In March 1957 the Patent Office rejected all of Adkins' claims on the basis of a prior patent. Lear then advised Adkins that it had concluded that its "steel gyros" did not come within the scope of the patent application, and that thereafter it would pay Adkins royalties only on the "2156 gyros" (A-I 176). Adkins continued to prosecute the application, however, abandoning his method claims and substituting new apparatus claims. The latter were finally allowed by the Patent Office in 1960. In 1959, however, Lear notified Adkins that it was terminating the license and would no longer pay him any royalties on the "2156 gyros" (A-I 176-177). Since that time Lear has continued to manufacture both models of gyro, but has paid Adkins no royalties thereon (A-I 177).

Adkins filed this suit for royalties in a California court in 1960, on the day the patent was issued. The

trial court directed a \$16,000 verdict for Adkins on the "2156 gyros," holding that Lear was estopped from contesting the validity of the patent (A-I 74). The jury returned a verdict on the "steel gyros" for \$888,000. The trial court set aside this verdict, however, holding that the estoppel doctrine did not apply to this phase of the case (A-I 75). It then ruled that Adkins' alleged invention was anticipated by, and was obvious in the light of, the prior art, as was the allegedly infringing "steel gyro" (A-I 77-81). In the latter connection, the trial court said (A-I 81):

Defendant's "Michigan" device ["steel gyro"] represents even less of an advance over the prior art than plaintiff's. The teachings of Schwan and Moody are so obvious that little further need be said to dispose of the matter. It is sufficient to point out that a dunderhead * * * would come up with precisely the device manufactured by Lear.

On appeal, the intermediate appellate court¹ ruled that it had been the intention of the parties, in the 1955 agreement, to make royalties payable only on patentable inventions (A-I 133-134). The court reasoned that since Lear gave Adkins notice of termination of the license in 1959, at a time when the Patent Office had refused to allow any claims to Adkins, the termination was effective and Lear had no further obligation under the license (A-I 137). In the

¹ Respondent states that under California law the grant of a hearing by the State Supreme Court rendered the opinion of the intermediate appellate court a nullity for all purposes. (Br. in Opp., p. 18, n. 6).

court's view, Lear's effective termination of the license made the doctrine of estoppel thereafter inapplicable under California law (A-I 138-139). And since the license had been effectively terminated, Adkins was deemed to have no cause of action thereunder for acts after 1959, but was "relegated to an action for infringement" in the federal courts (A-I 141). An alternative theory of recovery based on Lear's alleged unjust enrichment was rejected on the authority of *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (A-I 142-143). The case was remanded, however, for trial on the amount of damages to be awarded for production of the "steel gyros" prior to termination of the license.

On further appeal, the California Supreme Court reinstated both the \$888,000 award on the "steel gyros" and the \$16,000 award on the "2156 gyros". It ruled, first, that the 1959 termination was not effective, in the light of the intention of the parties reflected in their agreement, as construed under State law, and that Lear, therefore, was liable under the license when it refused to pay royalties. The court also held that "the doctrine of licensee estoppel is applicable and Lear is foreclosed from challenging the validity of Adkins' patent" (A-I 191). In addition, the court found that the prior art did not anticipate the claims of Adkins' patent (A-I 200-202), and that Lear's steel gyros infringed the patent (A-I 199). Accordingly, Lear was held liable for damages (1) on the "steel gyros" since 1957, when it had incorrectly concluded that such gyros fell outside the Adkins invention, and (2) on the "2156 gyros"

since 1959, when it had ineffectively attempted to terminate the contract.²

SUMMARY OF ARGUMENT

This case presents an appropriate occasion for re-examination by this Court of the validity of the State law doctrine of patent licensee estoppel. Although this Court upheld the doctrine in *Automatic Radio Co. v. Hazeltine, Inc.*, 339 U.S. 827, that aspect of the *Hazeltine* decision is conspicuously inconsistent with the premises underlying important decisions of this Court both preceding and following *Hazeltine*.

A basic policy of the federal patent and antitrust laws is to foster free competition in unpatented and unpatentable products. As an important corollary in achieving this objective, federal policy favors the exposure of invalid patent monopolies before the courts in order to free the public from their economic effects. On several occasions, this Court has held that particular applications of the doctrine of patent licensee estoppel are forbidden under federal law because they interfere with these fundamental federal patent and antitrust policies.

Recent decisions of this Court have further clarified these policies of federal law and strongly indicate that the entire doctrine of patent licensee estoppel

² Under the decision below, Lear cannot effectively terminate the contract without discontinuing manufacture of the gyros. If it were to do so, it would disrupt certain Department of Defense procurement arrangements. We are informed by that Department that the cost of Lear's future contractual liabilities to Adkins will probably be passed on, in substantial part, to the United States under applicable procurement regulations. See 32 C.F.R. § 15.205-36.

conflicts therewith. Unqualified rejection of the doctrine by this Court would appropriately vindicate these important federal policies and would not impair any substantial interest of the States.

ARGUMENT

One of the most effective safeguards of the public interest in maintaining the integrity of the patent system is the ability of private litigants to raise the invalidity of patents as a defense, thereby ridding the channels of commerce of the clogs on competition created by invalid patent monopolies. The State law doctrine of licensee estoppel has long obstructed and interfered with this safeguard. On several occasions in the past, the United States has unsuccessfully urged this Court to eliminate the doctrine. See Briefs for the United States as *Amicus Curiae* in *Katzinger Co. v. Chicago Mfg. Co.*, 329 U.S. 394; *MacGregor v. Westinghouse Co.*, 329 U.S. 402; *Automatic Radio Co. v. Hazeltine, Inc.*, 339 U.S. 827. In light of the recent decisions of this Court in *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, concerning the relationship between State law doctrines which forbade the copying of unpatented articles and the federal patent laws, it is now appropriate for this Court fundamentally to re-examine the State rule of patent licensee estoppel, and to hold it impermissible because it is inconsistent with, and repugnant to, federal patent and antitrust policy.

The present case presents an appropriate occasion for such a re-examination. The highest court of the

State squarely held that "the doctrine of licensee estoppel is applicable" (A-I 191). Reversal of that holding would be dispositive of the case in this Court and would be a judgment addressed to the issue inherent in the litigation which is of the most fundamental and general importance. This Court need not be deterred from reaching this issue by the fact that the petitioner's contentions in the State courts were directed primarily to attempting to carve out an exception to the doctrine rather than to its overturn. Because of this Court's decision upholding the doctrine in *Automatic Radio Co. v. Hazeltine, Inc.*, 339 U.S. 827, it would have been futile for the petitioner to argue broadly to the State courts that federal law bars the States from applying the doctrine of patent licensee estoppel. It is the province of this Court, and not of the State courts, to re-examine the premises of the *Hazeltine* decision; and it is appropriate to do so in a case, such as this one, in which the explicit holding of the court below is unavoidably dependent upon the continuing validity of that decision.

Moreover, the facts of the present case graphically illustrate the need for re-examination of the permissibility under federal law of the doctrine of patent licensee estoppel. The respondent has been awarded, over and above the normal salary he was paid by the petitioner for his professional services (see Reply Br. of Petitioner in Support of Petition, p. 3), a judgment for royalties totaling \$904,000. In addition, he can anticipate several million dollars of future royalty payments under the license (see *supra*, n. 2). Such payments are undeniably warranted under the patent

system if the respondent has in fact contributed, by means of a patentable invention, to the economic activities that are generating this return. But if he has not made such a contribution because the patent is specious, the payments represent only an unjustified exaction upon the work and investment of large numbers of other persons whose economic efforts are producing the income from which these royalties are derived. Because of the doctrine of licensee estoppel, the respondent is being allowed to exact this tribute even if his patent is invalid. Of course, when it is possible to do so, the ultimate cost of such payments will be passed along through the economy to be borne by the consumer, who is not even a party to the license agreement. This, too, is strikingly illustrated by the present case, in which the cost of future royalty payments will largely be borne by the Treasury, and taxpayers, of the United States (see *supra*, n. 2).

I. THE PATENT LICENSEE ESTOPPEL DOCTRINE THWARTS THE FEDERAL POLICY OF ASSURING THE PUBLIC OF FREE AND OPEN COMPETITION IN UNPATENTABLE PRODUCTS

The potential litigants who are the most likely to combine the requisite knowledge and incentive to challenge invalid patents are barred by the doctrine of licensee estoppel from relieving the public of the economic burden of unlawful patent monopolies.³ Such monopolies obstruct the public interest objectives that the patent system was designed to encourage, includ-

³ See *Automatic Radio Co. v. Hazeltine, Inc.*, 339 U.S. 827, 840 (dissenting opinion of Mr. Justice Douglas); cf. *Katzinger Co. v. Chicago Mfg. Co.*, 329 U.S. 394, 400-401.

ing the careful limitation of patent monopolies so as to permit the maximum exploitation of science and the useful arts. This public interest is dominant over any private concern.⁴ It is advanced by ridding the economy of invalid patents, and it is hindered by any obstacles thereto.⁵ Because the doctrine of licensee estoppel is such an obstacle, it is inconsistent with fundamental policies of the federal patent and anti-trust laws. While it is true that a majority of this Court upheld the doctrine in *Automatic Radio Co. v. Hazeltine, Inc.*, 339 U.S. 827, 836, we shall show that that aspect of *Hazeltine* constituted a departure from the premises underlying important decisions of this Court which preceded *Hazeltine*, and is even more plainly inconsistent with this Court's holdings in more recent cases. In these circumstances, we submit that re-examination by this Court of that aspect of the *Hazeltine* decision is both warranted and needed.

A. THE POLICY OF THE FEDERAL PATENT AND ANTITRUST LAWS IS TO GUARANTEE FREE AND OPEN COMPETITION IN UNPATENTED AND UNPATENTABLE PRODUCTS

The Patent Clause of the Constitution authorizes Congress "To promote the Progress of Science and useful Arts, by securing for limited Times to * * * Inventors the exclusive Right to their respective * * * Discoveries" (Art. I, § 8, cl. 8). By its terms, the

⁴ *Pennock v. Dialogue*, 2 Pet. 1; see authorities collected in *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 665. See, also, *Precision Instrument Mfg. Co. v. Automotive Co.*, 324 U.S. 806, 815-816.

⁵ See *Aero Co. v. B. G. Corp.*, 130 F. 2d 290, 294 (C.A. 2) (Frank, J., concurring: "An invalid patent masquerading as a valid one is a public menace * * *").

Clause allows the grant of exclusive right only for original creative contributions. In giving effect to the Patent Clause, Congress has authorized the grant of a patent only to one who invents or discovers a new and useful product or process (35 U.S.C. § 101), and it has prohibited such grants where the alleged invention has been known or used by another in the past (35 U.S.C. § 102) or would have been obvious to a person having ordinary skill in the art involved (35 U.S.C. § 103).

The decisions of this Court have made it clear that the "clause is both a grant of power and a limitation" (*Graham v. John Deere Co.*, 383 U.S. 1, 5). The Court has compared the Patent Clause with the Statute of Monopolies,^o which both authorized the grant of limited monopolies to true and first inventors of new manufactures and at the same time prohibited the grant of monopolies over goods or businesses which had previously been enjoyed by the public (*ibid.*; *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 229). Because of these dual policies of the patent system, neither Congress nor any State may, consistently with the Constitution, grant product monopolies which "remove existent knowledge from the public domain, or * * * restrict free access to materials already available" (*John Deere*, 383 U.S. at 6; see *Stiffel*, 376 U.S. at 231).

In order to protect these policies and objectives of the patent system, the Court has recently rejected, under the Supremacy Clause, decisions imposing liability under State law for the copying of an un-

^o 21 Jac. I, c. 3 (1623).

patentable article. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225; *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234. The Court held that "[t]o allow a State by use of its law of unfair competition to prevent the copying of an article which represents too slight an advance to be patented would be to permit the State to block off from the public something which federal law has said belongs to the public" (*id.*, at 231-232).

B. FEDERAL POLICY FAVORS INVALIDATION OF WORTHLESS PATENTS

In furtherance of the federal policy of free and open competition in unpatented and unpatentable products, "public policy favors the exposure of invalid patent monopolies before the courts in order to free the public from their effects." *United States v. Singer Mfg. Co.*, 374 U.S. 174, 200 (concurring opinion of Mr. Justice White). This principle has been recognized, implicitly, in the many decisions of this Court, culminating in *Graham v. John Deere Co.*, *supra*, requiring the maintenance of the high, Constitutional standard of invention, lest "the heavy hand of tribute be laid on each slight technological advance in an art" (*Cuno Engineering Corp. v. Automatic Devices Corp.*, 314 U.S. 84, 92).

The principle has also been recognized explicitly in a context very close to that of the present case. In *Pope Mfg. Co. v. Gormully*, 144 U.S. 224, a patentee sued to obtain specific performance of a patent licensing agreement in which the licensee promised that it would not, during the life of the licensed patents, dispute the validity of the licensor's title to certain other

patents and that, if the licensee used any such patents following termination of the license, the licensor might treat him as an infringer and obtain an injunction against him without notice.⁷ The Court said, "The real question is whether the defendant can estop himself from disputing patents which may be wholly void" (144 U.S. at 233). Noting that it "is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly * * *" (*id.*, at 234), the Court held that the agreement was so oppressive that a court of equity would not enforce it (*id.*, at 236-237). The Court also indicated that the estoppel provisions of the contract were void, as contrary to public policy (*id.* at 236). In so holding, it said that "it is a serious question whether public policy permits a man to barter away beforehand his right to defend unjust actions or classes of actions" (*id.*, at 234), and quoted with approval the statement in *Crane v. French*, 38 Miss. 503, that the right to make a defense may be one which (*id.*, at 234-235)

is not only a private right to the individual, but * * * is founded on public policy which is promoted by his making the defence, and contravened by his refusal to make it. * * * With regard to all such matters of public policy, it would seem that no man can bind himself by *estoppel* not to assert a right which the law gives him on reasons of public policy.

⁷ The patentee sought an injunction and an accounting; he did not seek damages.

Today, *Gormully* plainly means that patent license agreements that prevent challenge to patents contravene public policy. The distinction carefully made there between an action in equity and one at law can no longer be regarded as significant. See *Katzinger Co. v. Chicago Mfg. Co.*, 329 U.S. 394, 399-400; cf. *Barrows v. Jackson*, 346 U.S. 249, 254.

More recent authorities similarly recognize that there is a strong public policy favoring legal invalidation of unlawful patents, lest "competition * * * be repressed by worthless patents" (*Gormully, supra*). Thus, in *Sinclair Co. v. Interchemical Corp.*, 325 U.S. 327, 330, this Court admonished the lower federal courts trying infringement suits to pass upon the validity of patents, even where they deemed the defendant's product non-infringing, because "of the two questions, validity has the greater public importance." See, also, *Muncie Gear Co. v. Outboard Co.*, 315 U.S. 759, 768. Earlier, in *Haughey v. Lee*, 151 U.S. 282, 285, the Court had found "no merit in the proposition" that an infringer should be estopped from challenging the validity of a patent because of his own, unsuccessful efforts to procure the same patent, stating: "[T]he defence of want of patentable invention in a patent operates not merely to exonerate the defendant, but to relieve the public from an asserted monopoly * * *." Accord, *Paramount Corp. v. American Tri-Ergon Corp.*, 294 U.S. 464, 477.

C. THE DOCTRINE OF LICENSEE ESTOPPEL IS AN OBSTACLE TO THE
ACHIEVEMENT OF THESE POLICIES

Under the doctrine of licensee estoppel, a licensee may not challenge the validity of his licensor's patent, at least during the term of and within the scope of the license agreement.⁸ In the case at bar, although the trial court found that Adkins' alleged invention was obvious in light of the prior art (a finding not disturbed on appeal), the petitioner was nevertheless "estopped" by its license from utilizing that invalidity to defeat the respondent's claim for damages. Thus, assuming that under federal law respondent's devices represent too slight an advance to be patented, or that they are already in the public domain, the State rule applied here blocks the public from two substantial benefits: (1) petitioner's demonstration that the monopoly seemingly conferred by the patent is invalid; and (2) petitioner's free use of a technology

⁸ It is common practice to place an express no-contest clause in the license (as in the *Katzinger* case, *supra*; cf. *United States v. Singer Mfg. Co.*, 374 U.S. 174, 180, 199), but the distinction between the express and implied promise not to challenge validity has been deemed immaterial (*Katzinger*, 329 U.S. at 401-402; see *Scott Paper Co. v. Marcalus Co.*, 326 U.S. 249, 255-256).

The estoppel rule has at times been stated in terms of suits for royalties due under the contract (see *Automatic Radio Co. v. Hazeltine, Inc.*, 339 U.S. 827, 836), but the doctrine has also been invoked in infringement suits and actions for a declaratory judgment of invalidity (see *Katzinger Co. v. Chicago Mfg. Co.*, 329 U.S. 394; *MacGregor v. Westinghouse Co.*, 329 U.S. 402; *Scott Paper Co. v. Marcalus Co.*, 326 U.S. 249 (assignor estoppel)).

which, under federal law, belongs to all members of the public.*

This Court has recognized the importance to the public of preventing even a single manufacturer from being blocked off from the field engrossed by an invalid patent.¹⁰ *Scott Paper Co. v. Marcalus Co.*, 326 U.S. 249. In *Scott Paper*, the assignee of a patent sued its assignor for manufacturing an allegedly infringing device. The assignor defended on the ground that its machine was simply a copy of an expired prior art patent. The trial court held that since the assignor was estopped by its own assignment from showing the patent's invalidity (*Westinghouse Co. v. Formica Co.*, 266 U.S. 342, 349), it could not accomplish the same result indirectly by using the prior art to show noninfringement. The court of appeals, also relying on *Formica*, ruled that the estoppel doctrine did not bar the assignor from using prior art to narrow the claims of the patent, even to the point of eliminating them entirely. This Court cut through the formalistic distinctions of the two lower court opinions and held the estoppel doctrine to be completely inapplicable for the simple reason that foreclosure of the assignor from use of the prior art is inconsistent with federal patent laws which dedicate such matter to public use. The Court said that the aim of the patent laws is not only that the public shall be free

* Lear is a leading competitor in the production of instruments of this type. The Department of Defense has advised us that Lear is its only source for procurement of certain of these gyros, and is the leader among the four suppliers of others.

¹⁰ Cf. *Klor's, Inc. v. Broadway-Hale Stores, Inc.*, 359 U.S. 207, 213.

to manufacture the subject matter of an expired patent, "but also that the consuming public at large shall receive the benefits of the unrestricted exploitation, by others, of [such] disclosures" (326 U.S. at 255). The effect of permitting a manufacturer, whether by express contract or by "estoppel," to preclude himself from using the invention of an expired patent would run directly counter to this policy.

Frequently, the enforcement of a public policy depends upon persons who will, in protection of their own interests, also assert the public's rights. See, *e.g.*, *Barrows v. Jackson*, 346 U.S. 249. Private enforcement of the antitrust laws is an important element in protecting the public interest in competition. See, *e.g.*, *Kiefer-Stewart Co. v. Seagram & Sons*, 340 U.S. 211; *Simpson v. Union Oil Co.*, 377 U.S. 13. Equally important is private protection of the patent system by means of the defense that a technology is already in the public domain. *Scott Paper Co. v. Marcalus Co.*, *supra*. The widest possible availability of such a defense by private persons is especially needed in a patent system, such as ours, in which patent monopolies are granted in essentially *ex parte*, non-adversary administrative proceedings. This Court has "often indicated the inappropriateness of invoking broad common-law barriers to relief where a private suit serves important public purposes." *Perma Life Mufflers, Inc. v. International Parts Corp.*, No. 733, O.T. 1967, decided June 10, 1968, slip op. p. 4. The licensee estoppel doctrine is such a barrier.

II. THE TREND OF THIS COURT'S RECENT DECISIONS HAS BEEN TOWARD ABOLITION OF THE PATENT LICENSEE ESTOPPEL DOCTRINE AND THERE IS NO COUNTERVAILING JUSTIFICATION FOR ITS RETENTION

1. The recent decisions of this Court dealing with patent estoppel emphasize "the necessity of protecting our competitive economy by keeping open the way for interested persons to challenge the validity of patents which might be shown to be invalid * * *" (*Katzinger Co. v. Chicago Mfg. Co.*, 329 U.S. 394, 400). Thus they return to the principle of *Pope Mfg. Co. v. Gormully*, *supra*, 144 U.S. at 235, that "the right to challenge 'is not only a private right to the individual, but it is founded on public policy which is promoted by his making the defence, and contravened by his refusal to make it' " (329 U.S. at 400-401).

Some of the earlier cases, it is true, departed from the approach of *Gormully*. But they did so without discussion of the rule of estoppel; which was not even questioned by counsel (see *Sola Electric Co. v. Jefferson Co.*, 317 U.S. 173, 175). Moreover, they turned upon the "particular circumstances there involved" (*Katzinger Co. v. Chicago Mfg. Co.*, *supra*, at 399). Thus the estoppel doctrine slipped into our law almost unnoticed, often on the basis of casual dicta.

For example, *Kinsman v. Parkhurst*, 18 How: 289, was a pre-Sherman Act case involving a partnership agreement between a patentee and his assignee to produce the patented product and divide the profits. The Court held only that the alleged invalidity of the

patent was immaterial to the assignee's duty under the agreement to account for the proceeds.

United States v. Harvey Steel Co., 196 U.S. 310, involved a government contract for use of a patented armor plate process which contained a clause providing for termination of royalty payments if the patent was held to be invalid. When sued for disputed royalties, the government attacked the patent. On appeal, government counsel did not refer this Court to *Pope v. Gormully*, and did not challenge the general validity of the licensee estoppel doctrine. Instead they accepted the doctrine, arguing only that it was inapplicable to user-licensees as distinguished from licensees who sold the product. This Court rejected the purported distinction and held that under the explicit language of the contract clause the government could set up the invalidity of the patent as a defense only upon a prior showing of invalidity by a third party. There was no discussion—as there had been in *Gormully*—of the public policy implications of the estoppel doctrine. Moreover, under the license agreement in *Harvey Steel*, royalties were payable as consideration not only for the use of the patent, but for the use of related trade secrets that were communicated and that went beyond the patent. In fact, the Court found it unnecessary to decide whether the patent itself had been infringed, because of the admitted use of a process based upon these “communications of the claimant * * *” (196 U.S. at 319).

Any validity which the licensee estoppel doctrine had derived from *Kinsman* and *Harvey Steel* was completely eroded by the more recent patent estoppel

cases in this Court. In *Sola Electric Co. v. Jefferson Co.*, *supra*, the Court held that a license agreement containing a pricefixing clause did not bar the licensee from challenging the clause by showing that the patent is invalid and that the price restriction was accordingly unlawful under the Sherman Act because not protected by the patent monopoly.¹¹ The Court emphasized that "local rules of estoppel will not be permitted to thwart the purposes of statutes of the United States." 317 U.S. at 176.

As noted above (pp. 16-17), in *Scott Paper Co. v. Marcalus*, *supra*, the Court held that the assignor of a patent cannot be estopped from defending an infringement suit on the ground that the patent has expired.¹² It observed (326 U.S. at 256-257):

They [the patent laws] do not contemplate that anyone by contract or any form of private arrangement may withhold from the public the use of an invention for which the public has paid by its grant of a monopoly and which has been appropriated to the use of all. The rights in the invention are then no longer subject to private barter, sale, or waiver. [Citations omitted.] It follows that the patent laws preclude the petitioner assignee from invoking the doctrine of estoppel * * * and they

¹¹ See *United States v. General Electric Co.*, 272 U.S. 476; *United States v. Gypsum Co.*, 333 U.S. 364, 386-387. In a case in which this Court was evenly divided, the government recently challenged the continuing validity of *General Electric's* authorization of price-fixing clauses in patent license agreements. See *United States v. Huck Mfg. Co.*, 382 U.S. 197.

¹² The dissenting opinion of Mr. Justice Frankfurter in *Marcalus* argued that the effect of the Court's decision was to abolish assignor estoppel.

preclude the assignor from estopping himself from enjoying rights which it is the policy of the patent laws to free from all restrictions. For no more than private contract can estoppel be the means of successfully avoiding the requirements of legislation enacted for the protection of a public interest.

Sola Electric and Scott Paper were followed in *Katzinger v. Chicago Mfg. Co.*, *supra*, which also involved a license containing a pricefixing clause and in which it was thus unnecessary to decide whether the doctrine of licensee estoppel must be rejected in its entirety. However, the Court emphasized the dominant public interest in permitting challenges to the validity of patents. 329 U.S. at 400-401. Accord, *MacGregor v. Westinghouse Co.*, 329 U.S. 402; *United States v. Gypsum Co.*, 333 U.S. 364, 387.

The only contrary authority in recent years is *Automatic Radio Co. v. Hazeltine, Inc.*, *supra*. The principal issues in that case involved questions of alleged patent misuse. After dealing with those issues in detail, the Court simply noted that, "The general rule is that the licensee under a patent license agreement may not challenge the validity of the licensed patent in a suit for royalties due under the contract" (339 U.S. at 836). Application of the estoppel rule was upheld because the licenses involved did not, it was said, contain provisions in direct conflict with the anti-trust laws. But this aspect of the *Hazeltine* opinion does not rest on a considered articulation of policies or analysis of precedents. By contrast, the dissenting Justices, in an opinion which has grown in persuasiveness,

undertook such an analysis (339 U.S. at 338-840) and observed (339 U.S. at 840):

The licensee protects the public interest in exposing invalid or expired patents and freeing the public of their toll. He should be allowed that privilege. He would be allowed it were the public interest considered the dominant one. Ridding the public of stale or specious patents is one way of serving the end of the progress of science.

In merely reciting the "general rule" of licensee estoppel, the Court in *Hazeltine* did not focus on the critical question of the relationship between State and federal law in evaluating the issue of the permissibility of patent licensee estoppel. Analysis of that critical relationship was an important feature of this Court's leading opinion in this field, *Sola Electric Co. v. Jefferson Co.*, *supra*, 317 U.S. at 176-177. More recently, this Court very significantly returned to the teaching of *Sola Electric* in *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234. Fundamental considerations of federal patent and antitrust policy led the Court in those cases to strike down State "use of its law of unfair competition to prevent the copying of an article which represents too slight an advance to be patented" because the States would thereby be giving "protection of a kind that clashes with the objectives of the federal patent laws" (376 U.S. at 231-232).

Enforcement of invalid patent monopolies, by means of the State doctrine of licensee estoppel, likewise

"clashes with the objectives of the federal patent laws" and must yield to the supremacy of federal policies. To the extent that *Hazeltine* held to the contrary, it should be overruled as conspicuously inconsistent with the premises underlying decisions both preceding and following it—from *Gormully* and *Sola Electric*, through *Scott Paper*, *Katzinger*, *McGregor* and *Gypsum*, to *Stiffel*, *Compco*, *John Deere* and *Perma Life Mufflers*. The logic of these decisions can lead to no other result, as one member of this Court recently recognized (*United States v. Singer Mfg. Co.*, 374 U.S. 174, 200) (concurring opinion of Mr. Justice White):

In the "patent estoppel" cases, the Court found that public policy favors the exposure of invalid patent monopolies before the courts in order to free the public from their effects. Thus a licensee may not be prevented from attacking the validity of his licensor's patent.

2. Recognition that the estoppel doctrine conflicts with, and must yield to, federal law is facilitated by the fact that countervailing policies of State law favoring perpetuation of the doctrine are not substantial. Cf. *Southern Pacific Co. v. Arizona*, 325 U.S. 761, 775-779, 783-784. The patentee is not a victim of unfair dealing merely because his licensee challenges the patent.¹³ A non-exclusive license, such as

¹³ Rejection of the doctrine of patent licensee estoppel would leave unimpaired the general State doctrines of equitable estoppel and promissory estoppel, which are distinguishable from licensee estoppel. The doctrine of equitable estoppel is that one is not permitted to deny something which by his culpable silence or misrepresentation he has led another to

the present one (see A-I 158), does not require the licensor to forego granting licenses to, and collecting royalties from, others. His royalties represent full compensation for the patentee's agreement not to sue. If the royalties cease, he may sue either on the contract (as respondent elected to do in this case) or for infringement under the damage provisions of the patent code (35 U.S.C. 284). But if the patent is in fact invalid, neither the licensor nor anyone else should be permitted to enjoy the monopoly it confers or to tax the economy therewith. The licensee should be permitted to show the facts.

It might be argued that, from the standpoint of fair dealing, additional considerations may be present in cases involving exclusive licenses and patent assignments. In the case of an exclusive license it can be claimed that the patentee gave up other licenses or business arrangements; and in the case of a patent assignment it may be said that it is unfair for the assignor to purport to sell a valuable patent right and then, if the assignee should challenge the assignor's unlicensed post-assignment use of the patent, to claim that what was sold is worthless. But if the patent is

believe, if the other has acted upon that belief. "The doctrine always presupposes error on one side and fault or fraud upon the other" (*Morgan v. Railroad Co.*, 96 U.S. 716, 720). A promissory estoppel occurs only when one party's statement to the other induces him to change his position and act substantially to his prejudice in consequence of the inducement (*Jones v. United States*, 96 U.S. 24, 29; Restatement, *Contracts* § 90). By contrast, the question involved here is the appropriateness of a rule of estoppel where there has been neither fraud or falsehood on the one hand, nor reliance or injury on the other.

in fact invalid, the "license conferred no right, for the licensors had none to confer" (*Saxton v. Dodge*, 57 Barb. (N.Y.) 84, 113).

Perhaps, as a matter of state equity doctrine, an exclusive licensee who successfully challenges his licensor's patent might nevertheless be required to account for the benefits of exclusivity he enjoyed prior to the time the patent was declared invalid. And an assignor, who successfully challenges a patent he assigned, might be required to return the consideration he received for the assignment. Similarly, in cases where one party or the other had substantial reason to believe that the patent was invalid at the time of the license or assignment, and failed to disclose this fact to the other party, special damages might be appropriate. So long as such remedies do not conflict with federal patent or antitrust policy, these considerations are matters of state concern in adjusting the private rights between parties.¹⁴ But the estoppel doctrine's bar against challenges to the validity of patents directly interferes, in any of these cases, with the federal interest in protecting the economy from unlawful monopolies. The States must be restricted, in this field, to remedies which can be reconciled with the federal patent and antitrust laws. The States' "interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest secured by an appropriate exercise of the

¹⁴ Cf. *Perma. Life Mufflers v. International Parts Corp.*, *supra*, in which the Court held that although the *pari delicto* defense could not bar liability for violating the antitrust laws, the plaintiff's conduct can "be taken into consideration in computing damages * * *" (slip op., p. 6).

legislative power." *Scott Paper Co. v. Marcalus, supra*, 326 U.S. at 257.

CONCLUSION

For the foregoing reasons, the judgment of the Supreme Court of California should be reversed and the case remanded for that court to consider petitioner's challenge to the validity of the patent.¹⁵

Respectfully submitted.

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¹⁵ The relief here requested is appropriate to the contention on the merits made in this brief. Although this brief has been confined to a single issue, the government does not thereby intimate agreement or disagreement with the petitioner's additional contentions on the merits or related requests for further relief.

